# MEMORANDUM

May 18, 2023

# Utah Tech University – Financial Ratio Report Follow-up

In the March 2023 UBHE meeting, the Board reviewed OCHE's annual report on institution financial health metrics and discussed factors contributing to adverse readings by select institutions. Following the discussion, the Board instructed the Commissioner's Office to engage with Utah Tech University (UTU) staff and further examine the causes of UTU's sub-industry standard viability ratio and implications for institution financial planning. This memo and related materials contain follow-up information per the Board's direction.

## Viability Ratio

The Viability Ratio measures how many times an institution can cover its entire long-term debt obligation using its total expendable net assets. A ratio of 1:1 or greater indicates that an institution has sufficient expendable net assets to satisfy debt obligations. As the ratio falls below 1:1, the institution's ability to respond to adverse conditions from internal resources diminishes. As seen in Table 1, Utah Tech University's viability ratio has declined in recent years, as increases in long-term debt have outpaced growth in expendable net position.

**Table 1: Utah Tech University Expendable Net Position, Long-Term Debt & Viability Ratio, FY 2018-2022**

| Fiscal Year | Expendable Net Position | Total Long-Term Debt | Viability Ratio |
|---|---|---|---|
| 2018 | $31,071,739 | $49,639,653 | 0.63 |
| 2019 | $29,253,990 | $48,564,802 | 0.60 |
| 2020 | $28,211,253 | $91,537,856 | 0.31 |
| 2021 | $44,737,078 | $100,190,587 | 0.45 |
| 2022 | $44,577,904 | $166,997,643 | 0.27 |

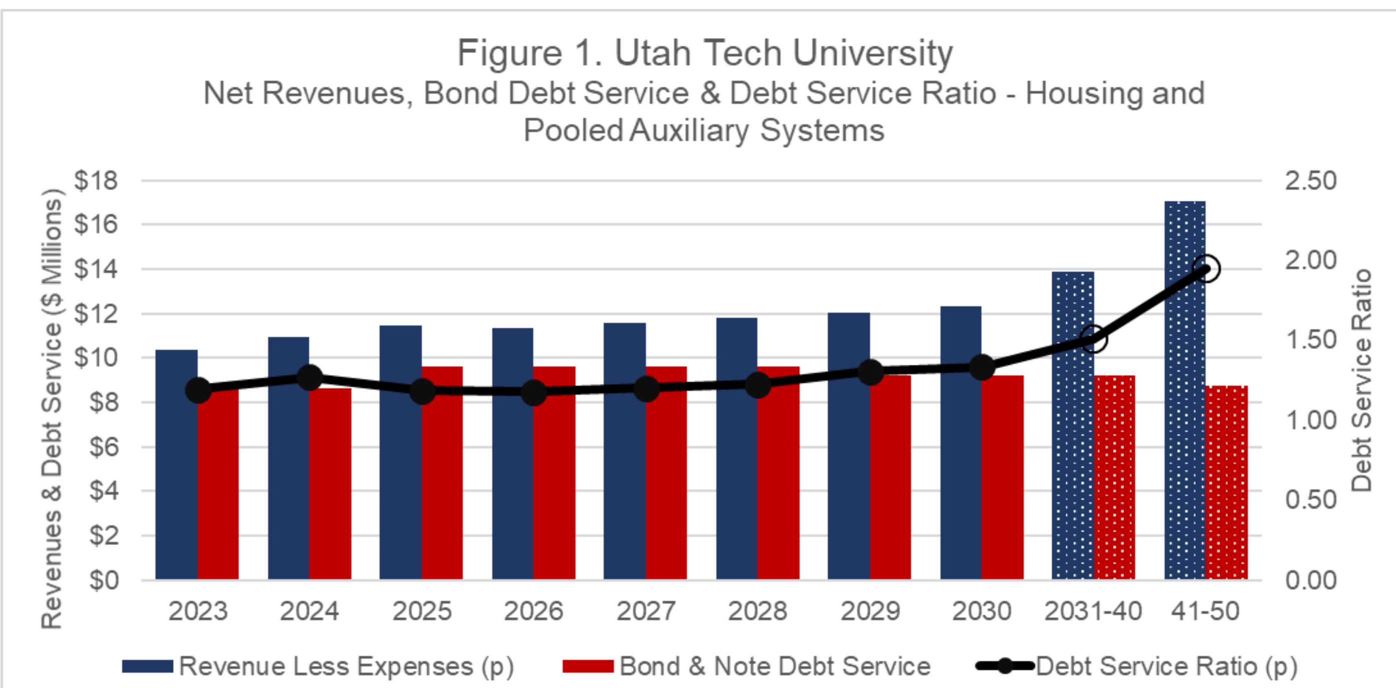
Table 2 reflects Utah Tech's debt issuances and outstanding balances by recent-year project. Note that nearly 75% of Utah Tech's FY 2022 outstanding long-term debt is sourced to student housing projects.

| Table 2: Utah Tech University Revenue Bond Issuance, FY 2015-2022 | | | |
|---|---|---|---|
| **Fiscal Year** | **Project** | **Original Amount** | **Balance as of June 30, 2022** |
| 2015 | Student Housing | $21,315,000 | $18,670,000 |
| 2017 | Human Performance Center | $20,770,000 | $19,615,000 |
| 2019 | Student Housing Phase II | $42,040,000 | $41,300,000 |
| 2020 | Greater Zion Stadium | $10,050,000 | $10,050,000 |
| 2022 | Student Housing Phase III | $65,075,000 | $65,075,000 |
| *Recent Debt Totals* | | *$159,250,000* | *$154,710,000* |
| *FY 22 Total Long-Term Debt* | | | *$166,997,643* |

In response to its declining viability ratio and to mitigate the risk of debt repayment default, Utah Tech University established a general revenue pledge against its original Campus View Suites student housing bond and each subsequent bond issuance, committing $500,000 annually to an institutional bond reserve. Moreover, with an 18% growth in budget-related FTE from the academic year 2018-19 to 2021-22, UTU was able to respond to capital facility growth needs in an especially tight local housing market with debt incurred at favorable interest rate levels.

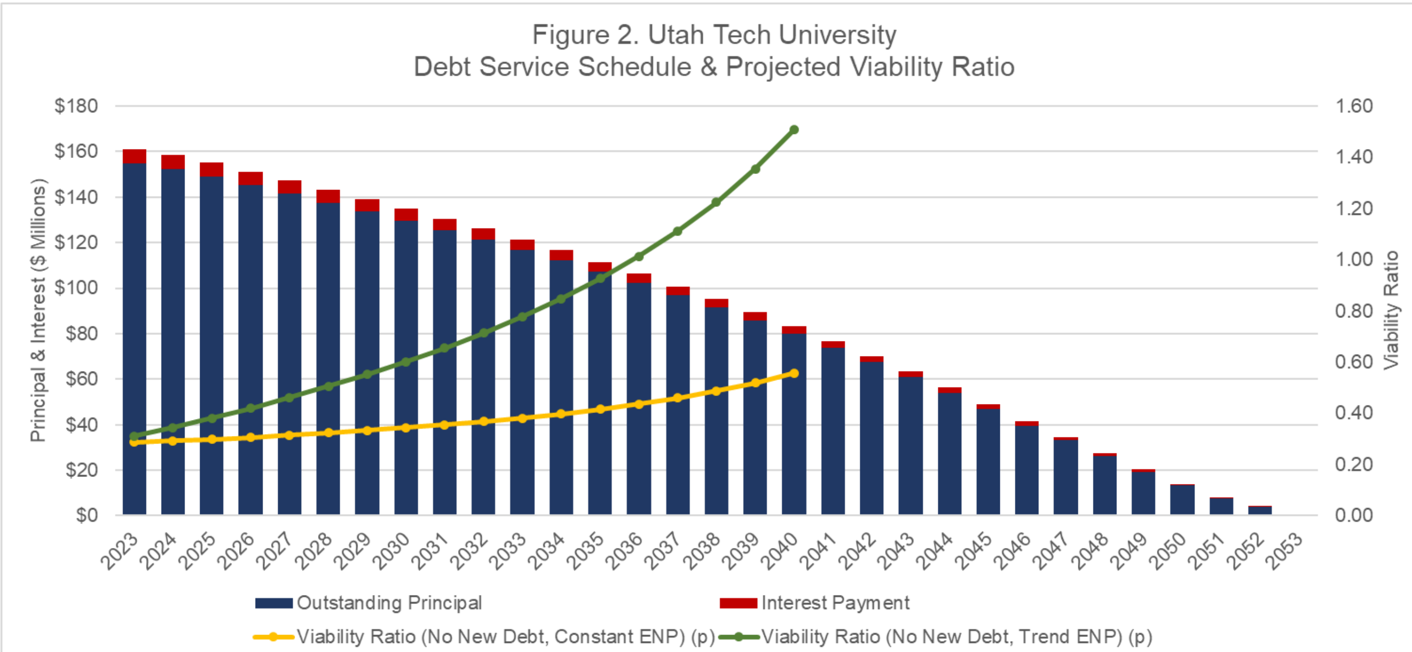
## Bond Pool Projected Net Revenues and Debt Service Ratio

To demonstrate current and projected financial solvency against recent capital projects and major debt holdings, UTU developed projections of annual revenues, expenditures, and bond payments through FY 2023 across its following operations: Housing, Building Fees, Avenna Center, Greater Zion Stadium, Campus Store, Food Service, and Road Scholar tours. Figure 1 below depicts these projections along with a derived annual bond debt service ratio. The debt service ratio measures how many times an institution can cover its annual debt service payments with available net revenues.



## Debt Service Schedule & Projected Viability Ratio

At current debt levels and without incurring any new debt, Utah Tech University will have the existing bond principal retired by the year 2053, as seen in Figure 2. Since the viability ratio is a function of long-term debt and expendable net position, Figure 2 shows two projections for UTU's viability ratio through FY 2040, one version showing how the viability ratio improves if expendable net assets hold constant (yellow) and another if expendable net assets grow on their previous five-year trend through FY 2040 (green).




## Discussion

In recent years, Utah Tech University has experienced notable growth pressures, with a corresponding impact on capital facility needs and accompanying long-term debt. While the viability ratio is only a single measure of an institution's fiscal health, conservative projections suggest that UTU's viability ratio will remain below the industry standard of 1:1 over the next five to ten-year budget window. UTU has identified this possibility and has taken action to backstop against potential default. With credible long-term population projections showing a 110% increase in the college-age population in Washington County through the year 2060, strategic financial planning to successfully address UTU's current and future growth challenges should continue to be a priority for the institution and the Board.

### Commissioner's Recommendation

This is an information item only; no action is required.

### Attachments